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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

THE two most surprising developments during the past month in the real estate field are the continued drop in real estate activity and the continued stability in the prices of existing properties. The activity behavior is surprising in view of the tremendous efforts which have been made to ease financing requirements. Downpayments have been lowered, interest rates have dropped, loans have been lengthened, but real estate activity has continued to decline. The stability in the selling prices of existing residences is remarkable in view of the reduced activity. When residences are not selling readily, it is amazing that those that do sell, sell at a price roughly in line with the selling price of a year ago, and fairly close to the all-time peak.

The chart on page 345 shows the course of real estate activity from 1936 to the present in contrast with the fluctuations in general business. It now appears almost certain that we were right a year ago last spring in our statement that the longest real estate boom in the history of America had come to an end. Now the fundamental question is how long will the readjustment in real estate activity last, and when will we go into the next real estate boom.

While we may experience some rise in real estate activity later in the year, it will be contrary to all patterns of the past if real estate activity should rise above our normal line in 1958 or 1959.

Our sales price index, shown on the following page, is based on the selling prices of existing single-family residences. The only drop we can find during the past year is almost microscopic. Here, too, we believe it would be surprising if the selling price of existing housing fell by any great percentage during 1958 or 1959. Over the long period the selling prices of existing houses depend primarily on their replacement cost new, and as long as we continue to inflate our general economy, building costs will show a tendency to rise, and will bring about a somewhat similar tendency in the prices of buildings already built.

One other surprising factor about our real estate statistics this month is the continued rise in the level of residential rents. Each month sees this index go slightly higher in spite of unemployment and a considerable volume of new building. This index is now at a new all-time high. As pointed out in one of our bulletins in June,* however, it is our belief that residential rents are still very low

*"As I See It Residential Rents Are Too Low," June 18, 1958.

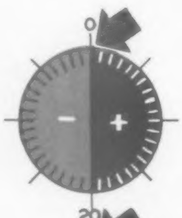
in relation to other factors in the cost of living, and that over a period of years they should work higher. The behavior of these various factors on our chart seems contradictory. If the prices of homes will hold their own, if construction costs will continue to advance, if residential rents will continue to rise, and if mortgage interest rates have dropped and downpayments have decreased, why won't real estate activity increase?

Probably the biggest test of the real estate cycle will come during the next 2 years. If real estate activity continues below our normal line for a period of years, as it has after every large real estate boom in the past, it will be rather conclusive proof that the real estate cycle is so fundamental that it cannot be eliminated by even rather drastic attempts.

As shown in the table at the top of page 346, the average interest rate of recorded mortgages in 12 major cities of the United States is continuing to drop, bringing it back to below the level of last December. It should be remembered that there is a lag in recorded interest rates over mortgage commitments. Actually, mortgage interest rates started to fall long before last December, and they will continue to drop on our table at least for the next 2 or 3 months.

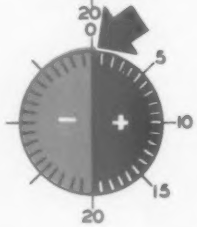
(cont. on page 346)

Real Estate Sales Price Comparisons



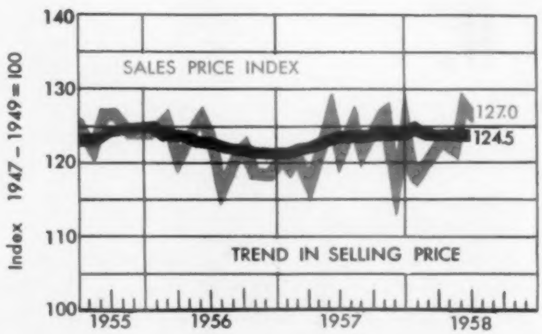
With preceding month

0.0%



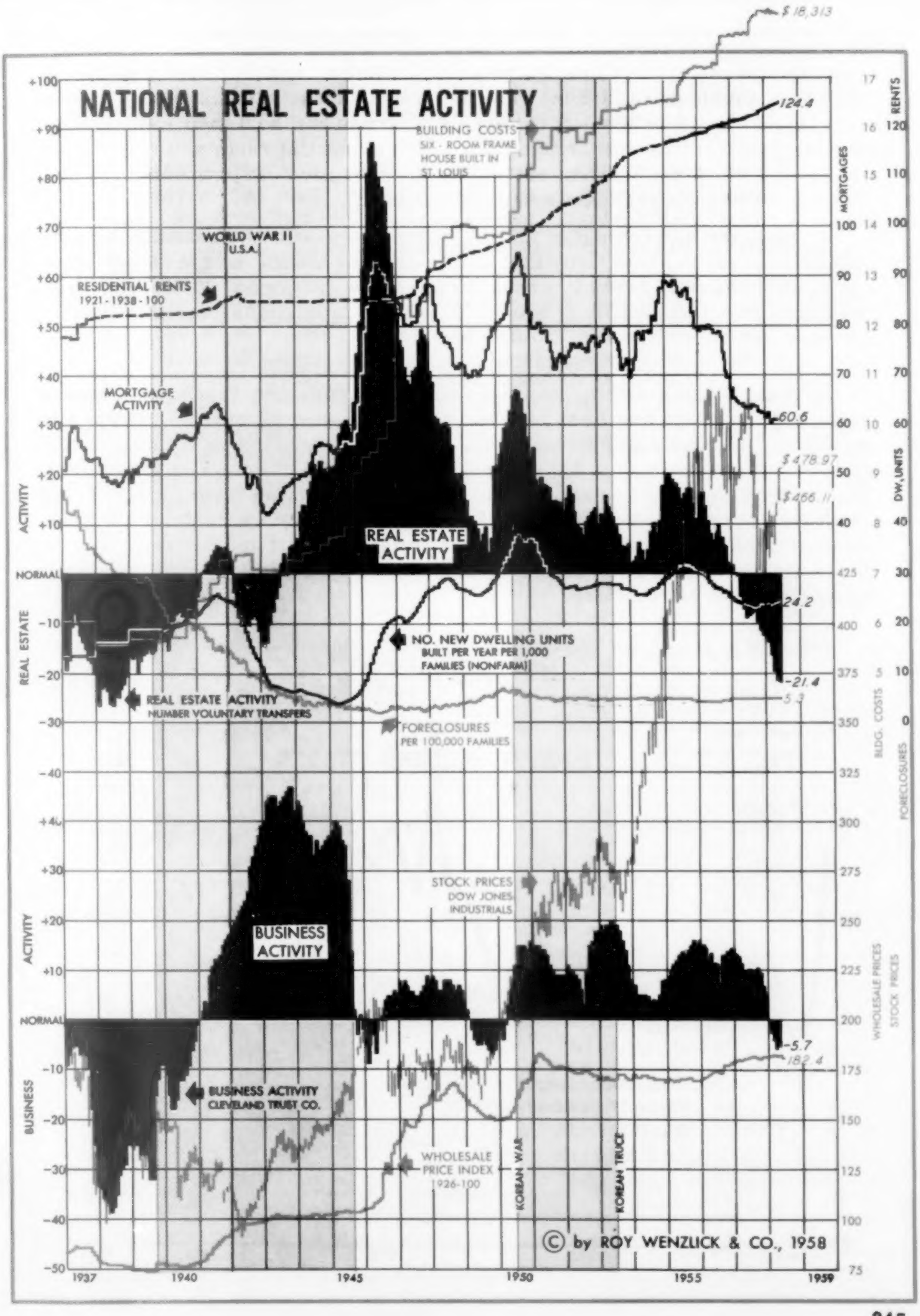
With same month preceding year

+0.5%



Date	Trend in selling price	Probable selling price of a house that sold for $12,000 in 1947-49 period
1947-49	100.0	$12,000
1913	40.1	4,812
1918	34.1	4,092
Mar. '29	73.9	8,868
May '32	34.8	4,176
Apr. '34	44.8	5,376
July '37	40.1	4,812
Apr. '38	42.8	5,136
Mar. '41	40.1	4,812
Oct. '48	104.5	12,540
Oct. '53	119.7	14,360
Oct. '54	122.3	$14,680
Oct. '55	125.1	15,010
Oct. '56	121.9	14,630
Jan. '57	121.9	14,630
May '57	123.9	14,870
Oct. '57	124.9	15,000
Nov. '57	124.9	14,990
Dec. '57	124.9	14,990
Jan. '58	125.3	15,040
Feb. '58	124.9	14,990
Mar. '58	124.7	14,960
Apr. '58	124.6	14,950
May '58	124.5	14,940
June '58	124.5*	14,940*

*Preliminary.

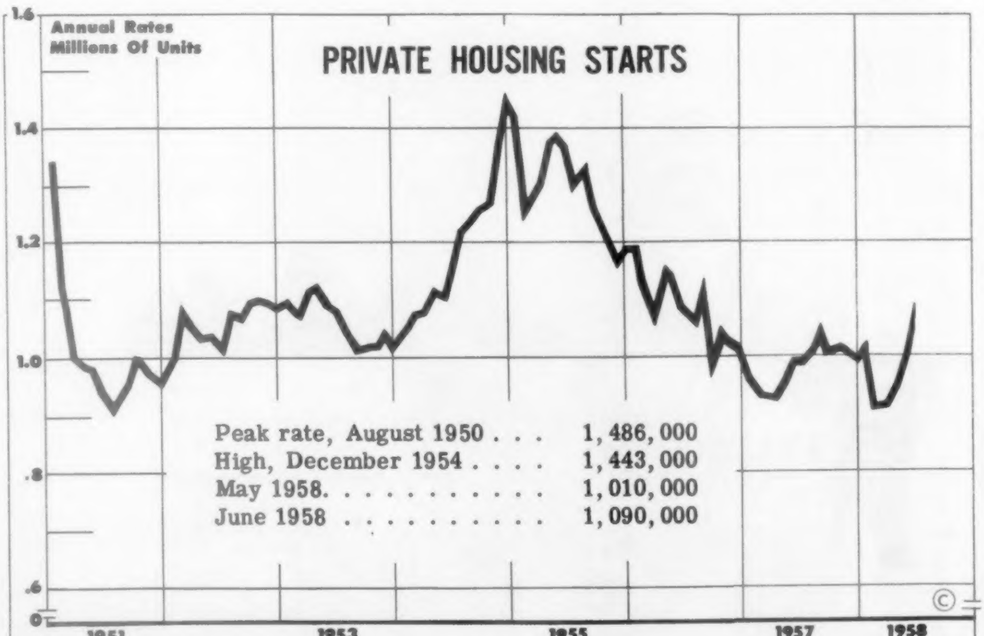

NATIONAL REAL ESTATE ACTIVITY
BUILDING COSTS
SIX - ROOM FRAME HOUSE BUILT IN ST. LOUIS
$18,313
124.4
WORLD WAR II U.S.A.
RESIDENTIAL RENTS 1921-1938-100
MORTGAGE ACTIVITY
60.6
$478.97
$466.11
REAL ESTATE ACTIVITY
NO. NEW DWELLING UNITS BUILT PER YEAR PER 1,000 FAMILIES (NONFARM)
24.2
-21.4
REAL ESTATE ACTIVITY NUMBER VOLUNTARY TRANSFERS
FORECLOSURES PER 100,000 FAMILIES
5.3
STOCK PRICES DOW JONES INDUSTRIALS
BUSINESS ACTIVITY
BUSINESS ACTIVITY CLEVELAND TRUST CO.
-5.7
182.4
WHOLESALE PRICE INDEX 1926-100
KOREAN WAR
KOREAN TRUCE
© by ROY WENZLICK & CO., 1958
REAL ESTATE ACTIVITY
BUSINESS ACTIVITY
NORMAL
MORTGAGES
RENTS
DW. UNITS
BLDG. COSTS
FORECLOSURES
WHOLESALE PRICES
STOCK PRICES
1937
1940
1945
1950
1955
1959

AVERAGE INTEREST RATE OF RECORDED MORTGAGES IN 12 MAJOR CITIES OF THE UNITED STATES

Jan. '54	5.187%	Jan. '56	5.105%	Nov. '57	5.639%
Apr. '54	5.173	Apr. '56	5.157	Dec. '57	5.758
July '54	5.089	July '56	5.141	Jan. '58	5.775
Oct. '54	5.092	Oct. '56	5.229	Feb. '58	5.840
Jan. '55	5.045	Jan. '57	5.363	Mar. '58	5.821
Apr. '55	5.079	Apr. '57	5.507	Apr. '58	5.813
July '55	5.050	July '57	5.501	May '58	5.787
Oct. '55	5.055	Oct. '57	5.602	June '58	5.717

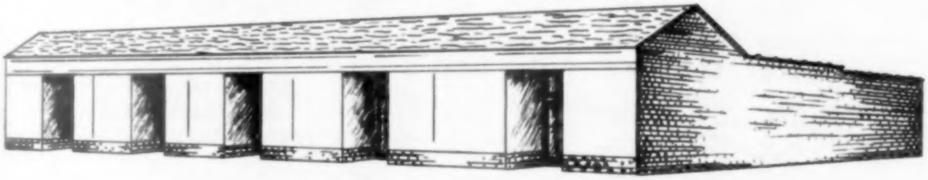
Private housing starts, as shown on the chart below, reached the highest point in June which has been reached during the past 22 months. If this rate continues, we should end the year with more private starts than we experienced in 1957. If we continue to build new houses at a rate of over 1 million a year, that in itself should stimulate real estate activity, as these houses must be sold or the builders will stop building. From the number of applications for FHA-insured and VA-guaranteed mortgages, it would look as if building volume in the last 6 months should be substantial, and again this might bring real estate activity above our normal line.

Building costs on the buildings illustrated on the opposite page have contin-
(cont. on page 350)



INCREASES IN BUILDING COSTS SINCE 1939

ST. LOUIS
July 1958

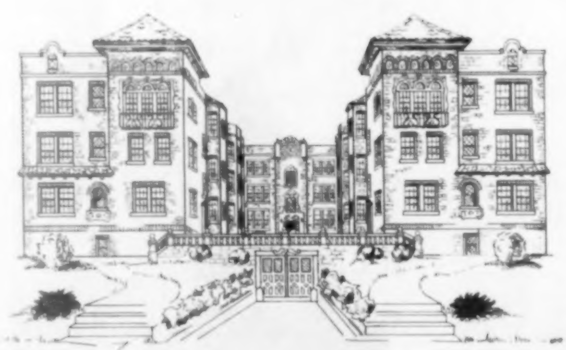


COMMERCIAL BUILDING - NO BASEMENT
Content: 115, 850 cubic feet
8, 075 square feet
Cost 1939: $22, 726
(19. 6¢ per cubic foot; $2. 82 per square foot)
Cost today: $71, 139
(61. 0¢ per cubic foot; $8. 81 per square foot)
INCREASE OVER 1939 = 213. 0%

For plans and specifications see page 74 of the Wenzlick Building Cost Manual.

18-FAMILY BRICK APARTMENT
(FRAME INTERIOR)*
Content: 168, 385 cubic feet
13, 260 square feet
Cost 1939: $ 60, 300
(35. 8¢ per cubic foot; $ 4. 55 per sq. ft.)
Cost today: $181, 408
($1. 08 per cubic foot; $13. 68 per sq. ft.)
INCREASE OVER 1939 = 200. 8%

For plans and specifications see page 60 of the Wenzlick Building Cost Manual.

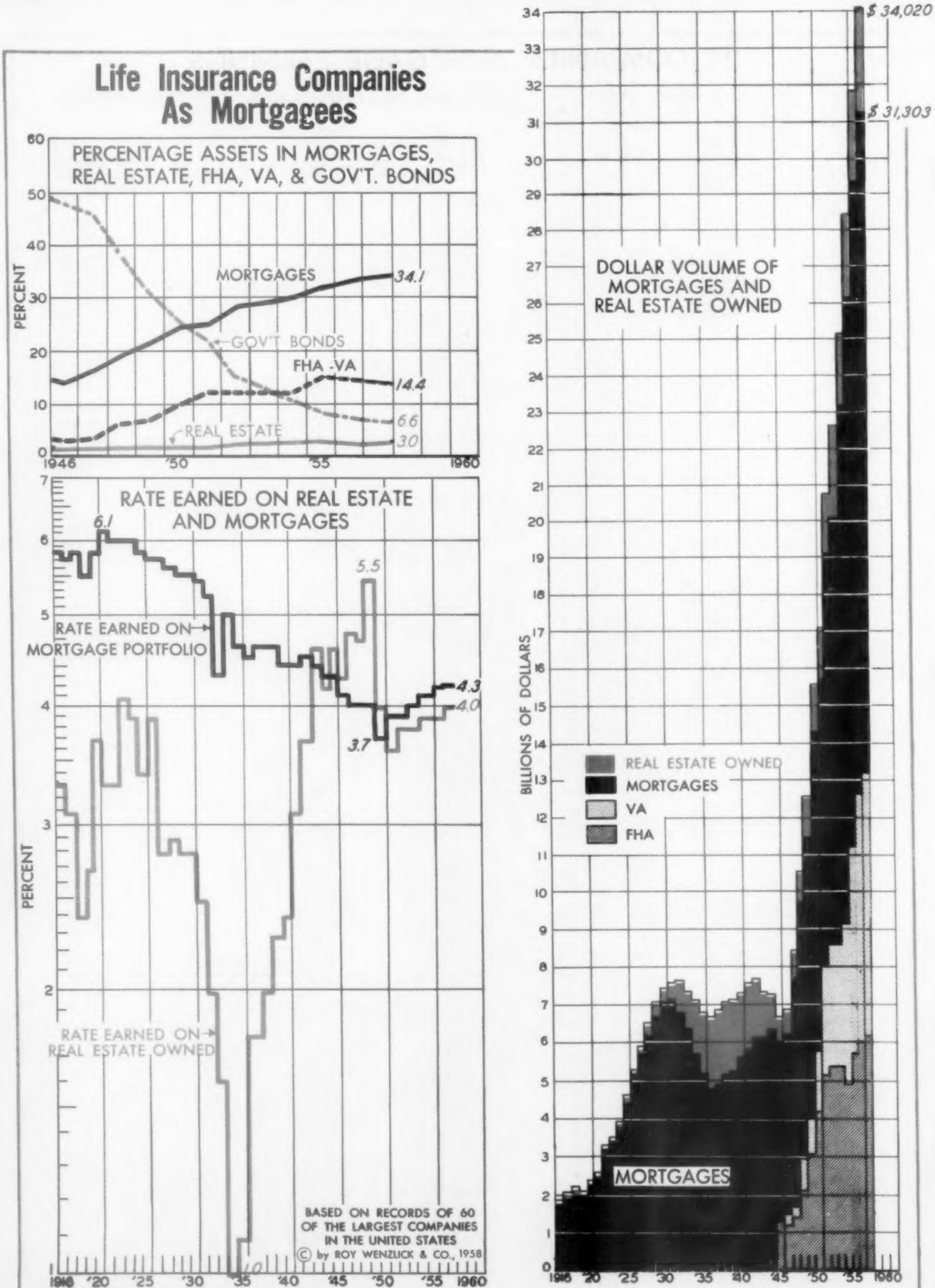


30-UNIT REINFORCED
CONCRETE APARTMENT*
Content: 303, 534 cubic feet
21, 372 square feet
Cost 1939: $135, 000
(44. 5¢ per cubic foot; $ 6. 33 per sq. ft.)
Cost today: $390, 184
($1. 28 per cubic foot; $18. 26 per sq. ft.)
INCREASE OVER 1939 = 189. 0%

For plans and specifications see page 68 of the Wenzlick Building Cost Manual.

*Costs include full basement

Life Insurance Companies As Mortgagees



LIFE COMPANIES' MORTGAGE EARNINGS

	REAL ESTATE OWNED*			REAL ESTATE MORTGAGES			GROSS ASSETS
Year	Amount	% of Assets	Rate Earned	Amount	% of Assets	Rate Earned	Amount
1912	$ 146,166,000	3.5	3.3	$ 1,379,939,000	33.3	5.5	$ 4,149,526,000
1913	121,937,000	2.8	2.9	1,499,309,000	34.2	5.5	4,383,429,000
1914	138,325,000	3.0	3.3	1,581,708,000	34.1	5.6	4,643,300,000
1915	137,311,000	2.8	3.1	1,645,885,000	33.8	5.7	4,874,996,000
1916	138,345,000	2.6	3.3	1,744,232,000	33.1	5.8	5,263,263,000
1917	150,396,000	2.7	3.1	1,863,292,000	33.3	5.7	5,595,618,000
1918	149,766,000	2.5	2.4	1,903,820,000	31.4	5.8	6,064,021,000
1919	135,409,000	2.1	2.7	1,909,279,000	30.1	5.5	6,352,990,000
1920	133,806,000	1.9	3.7	2,216,229,000	32.3	5.8	6,871,023,000
1921	144,252,000	2.0	4.3	2,420,470,000	33.5	6.1	7,229,795,000
1922	149,437,000	1.9	4.3	3,143,557,000	39.0	6.0	8,060,855,000
1923	157,922,000	1.8	4.1	3,303,878,000	37.7	6.0	8,765,533,000
1924	174,633,000	1.8	3.9	3,792,021,000	39.2	6.0	9,671,109,000
1925	189,181,000	1.8	3.4	4,359,155,000	40.7	5.8	10,705,786,000
1926	216,422,000	1.8	3.9	5,076,147,000	42.6	5.7	11,916,205,000
1927	252,857,000	1.9	2.8	5,669,244,000	42.8	5.7	13,261,266,000
1928	300,118,000	2.0	2.9	6,221,344,000	42.1	5.6	14,776,734,000
1929	344,446,000	2.1	2.8	6,752,645,000	41.7	5.5	16,205,703,000
1930	396,379,000	2.3	2.8	7,024,636,000	40.1	5.5	17,502,658,000
1931	522,291,000	2.8	2.5	7,125,832,000	38.1	5.4	18,720,503,000
1932	757,433,000	3.9	2.0	6,877,882,000	35.5	5.2	19,358,913,000
1933	1,120,377,000	5.7	1.6	6,350,391,000	32.2	4.3	19,747,417,000
1934	1,587,881,000	7.7	1.0	5,615,869,000	27.2	5.0	20,645,755,000
1935	1,773,813,000	8.1	1.1	5,074,726,000	23.1	4.6	21,998,046,000
1936	1,913,885,000	8.2	1.8	4,772,895,000	20.4	4.5	23,442,313,000
1937	1,951,971,000	7.9	1.8	4,856,604,000	19.6	4.6	24,838,002,000
1938	1,949,935,000	7.4	2.0	5,062,155,000	19.3	4.6	26,281,722,000
1939	1,915,011,000	6.8	2.3	5,272,315,000	18.7	4.6	28,134,150,000
1940	1,846,903,000	6.3	2.4	5,520,663,000	19.0	4.4	29,121,745,000
1941	1,660,668,000	5.4	3.1	5,890,776,000	19.3	4.4	30,513,433,000
1942	1,461,886,000	4.4	3.7	6,152,398,000	18.7	4.5	32,929,464,000
1943	1,181,140,000	3.2	4.6	6,129,855,000	16.7	4.4	36,783,584,000
1944	922,881,000	2.4	4.2	6,380,277,000	16.5	4.3	38,654,055,000
1945	717,500,000	1.7	4.6	5,952,461,000	14.3	4.3	41,728,006,000
1946	628,589,000	1.4	4.3	6,271,048,000	13.9	4.1	45,101,834,000
1947	756,902,000	1.5	4.8	7,678,416,000	15.5	4.0	49,490,072,000
1948	944,372,000	1.8	4.7	9,616,990,000	18.5	4.0	51,899,916,000
1949	1,121,878,000	2.0	5.5	11,457,589,000	20.7	4.0	55,428,963,000
1950	1,311,801,000	2.2	4.0	14,361,375,000	24.3	3.7	59,114,301,000
1951	1,471,960,000	2.3	3.6	15,604,016,000	24.7	3.9	63,234,623,000
1952	1,711,228,000	2.5	3.8	19,002,758,000	28.1	3.9	67,640,964,000
1953	1,801,267,000	2.5	3.8	20,811,296,000	28.9	4.0	72,128,202,000
1954	2,044,202,000	2.6	3.9	23,154,896,000	30.0	4.1	77,282,466,000
1955	2,259,165,000	2.7	3.9	26,172,635,000	31.8	4.1	82,399,207,000
1956	2,457,194,000	2.8	3.9	29,327,420,000	33.7	4.2	87,098,101,000
1957	2,717,298,000	3.0	4.0	31,303,645,000	34.1	4.3	91,811,741,000

*Includes home office buildings.

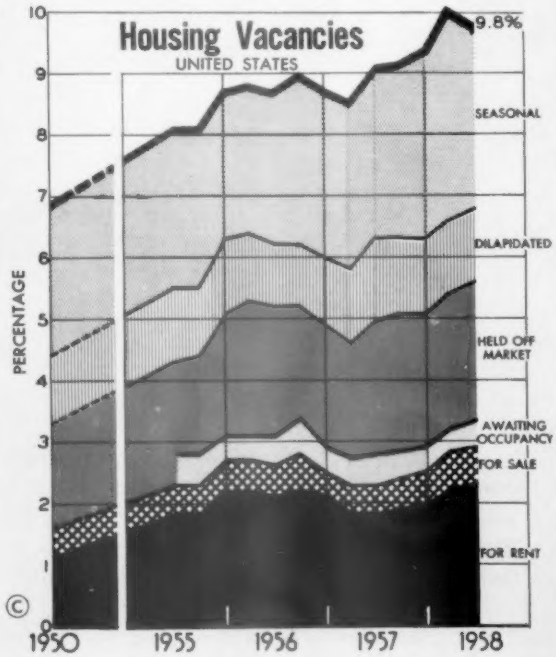
Year	Government Bonds	% Assets	VA	FHA	% of Assets in FHA and VA Mortgages
1945	$19,548,581,000	46.8	-	$1,220,831,000	2.9
1946	20,533,663,000	45.5	$ 26,654,000	1,105,227,000	2.5
1947	18,902,492,000	38.2	201,261,000	1,364,626,000	3.2
1948	15,737,902,000	30.3	935,296,000	2,078,643,000	5.8
1949	14,288,446,000	25.8	1,012,818,000	3,003,274,000	7.2
1950	12,492,725,000	21.1	1,677,231,000	4,149,246,000	9.9
1951	10,098,467,000	16.0	2,867,850,000	4,703,058,000	12.0
1952	9,295,443,000	13.7	3,058,619,000	5,087,339,000	12.0
1953	8,850,262,000	12.3	3,233,358,000	5,390,993,000	12.0
1954	8,124,294,000	10.5	4,290,506,000	4,821,371,000	11.8
1955	7,597,493,000	9.2	5,550,554,000	5,709,514,000	13.7
1956	6,493,810,000	7.5	6,684,885,000	6,004,700,000	14.6
1957	6,078,649,000	6.6	7,055,451,000	6,131,479,000	14.4

(cont. from page 346)
ued to inch upward to new highs on the store building and on the 18-family brick apartment with frame interior. The 30-unit reinforced concrete apartment, however, showed a microscopic drop in the recent past, but is still very close to the all-time high.

The greatest insurance against a drop in residential rents is the increased cost of developing rental space. As long as no great number of vacancies exists, rental space will be augmented only at the upper end of the price scale. Through urban redevelopment we are now eliminating some of the most undesirable housing, and naturally this housing rented at the lowest price. It is almost inevitable, therefore, if we eliminate the poorest housing and if we build new units at fairly high costs which must then be rented for substantial rentals, that the average rent paid in a community will increase.

The chart and table on pages 348 and 349 show life insurance company investments in real estate and in real estate mortgages from 1916 through 1957. It is based on the records of 60 of the largest companies in the United States, having more than $31 billion worth of real estate mortgages. These same companies in 1916 had less than $2 billion invested in mortgages.

There have only been 2 years since 1936 when these companies did not increase their mortgage portfolios, and in every year since 1946 they have increased the percentage of their assets which were invested in mortgages. At the present time the average rate earned on the mortgage portfolios of these 60 companies is 4.3%. The low on mortgage earnings was made in 1950 at 3.7%. The high was in 1921, with an average rate of 6.1%. In every year since 1946 these life insurance companies have reduced the percentage of their assets invested in Government bonds. In 1946 practically half of their assets were in bonds of this type. This is now 6.6%.



The average earnings on real estate owned by these companies is 4%. The high was reached in 1949, when real estate owned earned 5.5%. During 1934 earnings on real estate owned went down to 1%.